

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**DOLLAR BAY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2008**



“Learning Today - Succeeding Tomorrow”

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**

**JUNE 30, 2008**

---

**ADMINISTRATION**

Superintendent .....	Jan Quarless
Principal .....	William Tarbox

**BOARD OF EDUCATION**

President .....	Richard Nye
Vice President .....	Dallas Bond
Treasurer .....	Donna Engman
Secretary .....	Julie Dunstan
Trustee .....	Larry Fallon
Trustee .....	Hugh Hosafros
Trustee .....	Steven LeClaire

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	5
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	7
<b>BASIC FINANCIAL STATEMENTS</b>	
<u>District-wide Financial Statements:</u>	
Statement of Net Assets .....	14
Statement of Activities .....	15
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	17
Fiduciary Funds - Statement of Fiduciary Net Assets .....	18
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	19
<b>REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION</b>	
Budgetary Comparison Schedule - General Fund .....	33
<b>OTHER SUPPLEMENTAL FINANCIAL INFORMATION</b>	
<u>Major Governmental Funds:</u>	
General Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances .....	35
Debt Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances .....	37

**TABLE OF CONTENTS**  
**(Continued)**

	<u>Page</u>
<u>Non-Major Governmental Funds:</u>	
Combining Balance Sheet .....	38
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances .....	39
School Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances .....	40
Athletic Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances .....	41
<u>Fiduciary Funds:</u>	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities .....	42
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	43



**Bruce A. Rukkila, CPA, PC**

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.bruцерukkila.com



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Dollar Bay-Tamarack City Area Schools  
Dollar Bay, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dollar Bay-Tamarack City Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2008 on our consideration of Dollar Bay-Tamarack City Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and page 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Dollar Bay-Tamarack City Area Schools' basic financial statements. The additional information on pages 35 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Bruce A. Rukkila, CPA, PC**

Certified Public Accountants

October 23, 2008

**Dollar Bay-Tamarack City Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2008**

---

This section of Dollar Bay-Tamarack City Area Schools' annual financial report presents our discussion and analysis of the School Districts financial performance during the year ended June 30, 2008. Please read it in conjunction with the School Districts' financial statements, which immediately follows this section.

**Financial Highlights**

The district continues to make significant financial progress and improvement. An increase in student enrollment, two teacher retirements, and the payoff of several past retirement buy-outs have resulted in an increased fund balance. The financial progress and improvement is also the result of prudent decisions by administration regarding continued expenditures and staff diligence toward accountability.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **Overview of the Financial Statements - Continued**

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Retirement Funds, School Food Service, and Athletic Funds.

**Major Funds:** Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement

**Non-major Funds:** In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt, School Food Service and Athletic Funds.



**Dollar Bay-Tamarack City Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2008**

---

**Summary of Net Assets**

	2008	2007
Assets		
Current and other assets	\$ 713,913	\$ 562,076
Restricted investments	23,525	53,767
Capital assets - Net of accumulated depreciation	2,897,305	2,974,453
Total Assets	<u>\$ 3,634,743</u>	<u>\$ 3,590,296</u>
Liabilities		
Current liabilities	\$ 623,009	\$ 650,782
Long-term liabilities	2,330,872	2,576,802
Total Liabilities	<u>2,953,881</u>	<u>3,227,584</u>
Net Assets		
Invested in capital assets - net of related debt	494,638	352,432
Restricted	40,207	72,669
Unrestricted	146,017	(62,389)
Total net assets	<u>680,862</u>	<u>362,712</u>
Total Liabilities and Net Assets	<u>\$ 3,634,743</u>	<u>\$ 3,590,296</u>

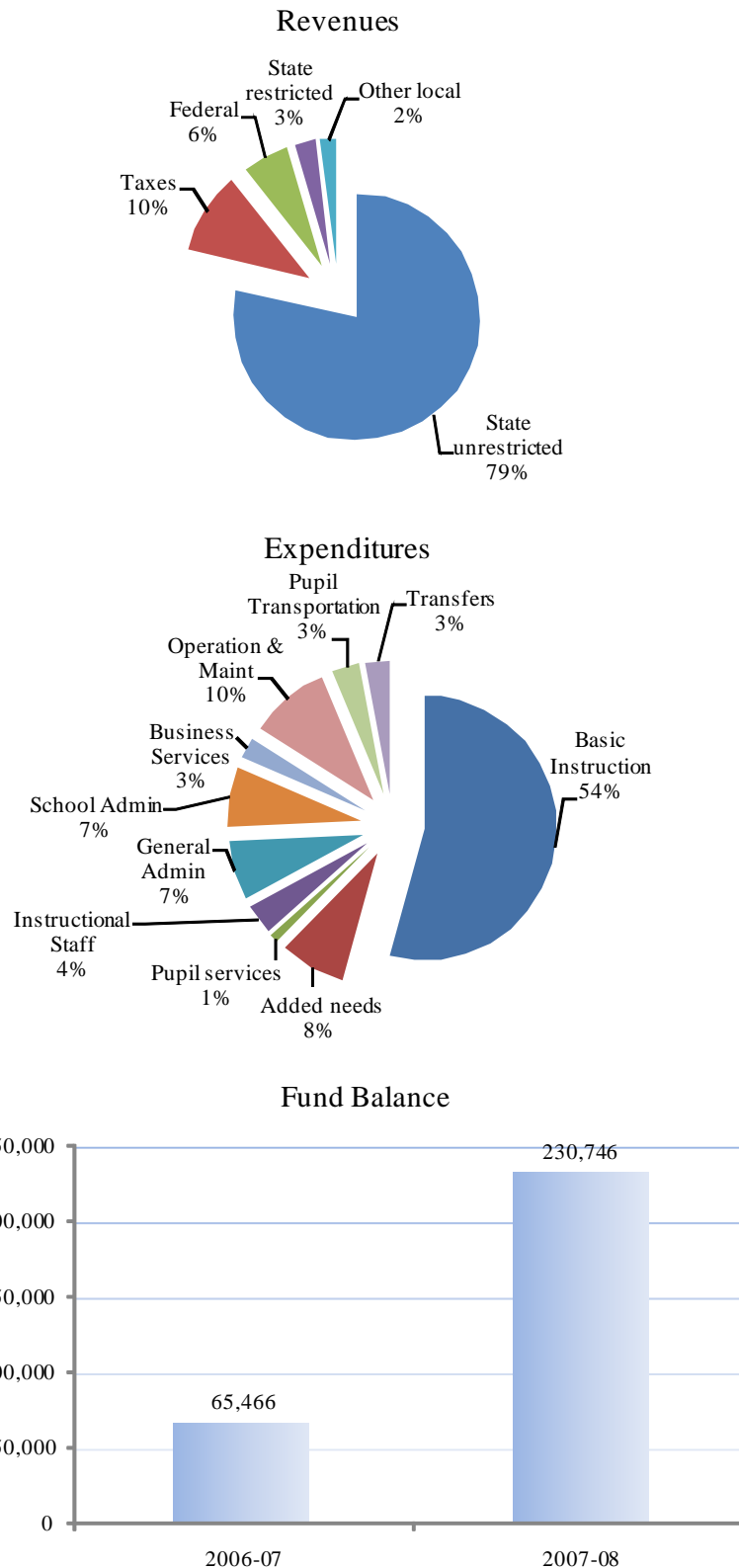
**Results of Operations in Governmental Activities**

	2008	2007
Program Revenue:		
Charges for services	\$ 33,447	\$ 41,152
Grants and contributions	286,277	339,437
General Revenue:		
Property taxes	541,628	496,310
State foundation allowance	1,897,367	1,949,234
Other	64,454	26,789
Total Revenue	<u>2,823,173</u>	<u>2,852,922</u>
Functions/Program Expenses		
Instruction	1,445,404	1,522,433
Support services	797,293	781,055
School food services	112,638	110,916
Athletics	42,179	57,863
Interest on long-term debt	106,704	135,167
Other debt	805	(19,046)
Total Expenses	<u>2,505,023</u>	<u>2,588,388</u>
Change in Net Assets	318,150	264,534
Net Assets - Beginning	362,712	98,178
Net Assets - Ending	<u>\$ 680,862</u>	<u>\$ 362,712</u>

**Dollar Bay-Tamarack City Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2008**

---

The following charts highlight the District's General Fund activities:



**Dollar Bay-Tamarack City Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2008**

---

**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 2,431,588	\$ 2,518,307	\$ (86,719)
Expenditures/Transfers	\$ 2,266,308	\$ 2,342,321	\$ (76,013)
Fund Balance	\$ 230,746	\$ 65,466	\$ 165,280
Debt Retirement Fund:			
Revenues/Transfers	\$ 294,401	\$ 275,631	\$ 18,770
Expenditures/Transfers	\$ 326,863	\$ 306,585	\$ 20,278
Fund Balance	\$ 40,207	\$ 72,669	\$ (32,462)
School Food Service Fund:			
Revenues/Transfers	\$ 112,623	\$ 112,781	\$ (158)
Expenditures/Transfers	\$ 112,638	\$ 110,916	\$ 1,722
Fund Balance	\$ 3,760	\$ 3,775	\$ (15)
Athletic Fund:			
Revenues/Transfers	\$ 47,471	\$ 53,363	\$ (5,892)
Expenditures/Transfers	\$ 42,179	\$ 57,863	\$ (15,684)
Fund Balance	\$ 5,292	\$ 0	\$ 5,292

General Fund - The largest single decrease in revenue was the Comprehensive School Reform Grant which decreased by \$79,766. Other revenue decreases were State Aid, Title I Grant, REAP Grant, and transfers from other districts. In addition, no contribution revenue was received in 2007-08. As a result of this decreased revenue, expenditures were also lower.

Debt Service Fund - Revenues increased from prior year due to an increase in tax revenue. Expenditures increased because the School Bond Loan Fund payment and interest on bonds were approximately \$19,000 more than prior year.

School Food Service Fund - There were no significant fluctuations from prior year.

Athletic Fund - Expenditures in prior year were more due to the purchase of new uniforms, athletic chairs, and general upgrades within the athletic program.

**Dollar Bay-Tamarack City Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2008**

---

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year in July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2008, the original budget was adopted on June 25, 2007. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 2,259,499	\$ 2,395,644	\$ 2,422,543	\$ 26,899	1.1%
Expenditures					
Instruction	\$ 1,435,970	\$ 1,466,676	\$ 1,410,404	\$ 56,272	4.0%
Supporting services	752,578	780,982	792,994	(12,012)	-1.5%
Total expenditures	\$ 2,188,548	\$ 2,247,658	\$ 2,203,398	\$ 44,260	2.0%
Other financing sources (uses)	\$ (139,808)	\$ (58,074)	\$ (53,865)	\$ 4,209	-8%

Actual revenues were more than budgeted revenues due to a discrepancy in the calculation of taxable value. This resulted in actual property tax revenues exceeding budgeted amounts.

Support service expenditures were higher than budget because there was an increase in principal salary.

For the original budget, the State aid calculation is done in June of 2007 and is based purely on estimated student enrollment. In addition, grant allocations and/or donations are not always known at that time the original budget is approved resulting in lower budgeted expenditures.

The original budget also budgeted for the Special Pool which was discontinued and corrected in the final budget.

**Capital Assets and Debt Administration**

Capital Assets: There was a net increase of \$3,500 due to a purchase of a van. There were no disposals of assets for the fiscal year 2007-2008.

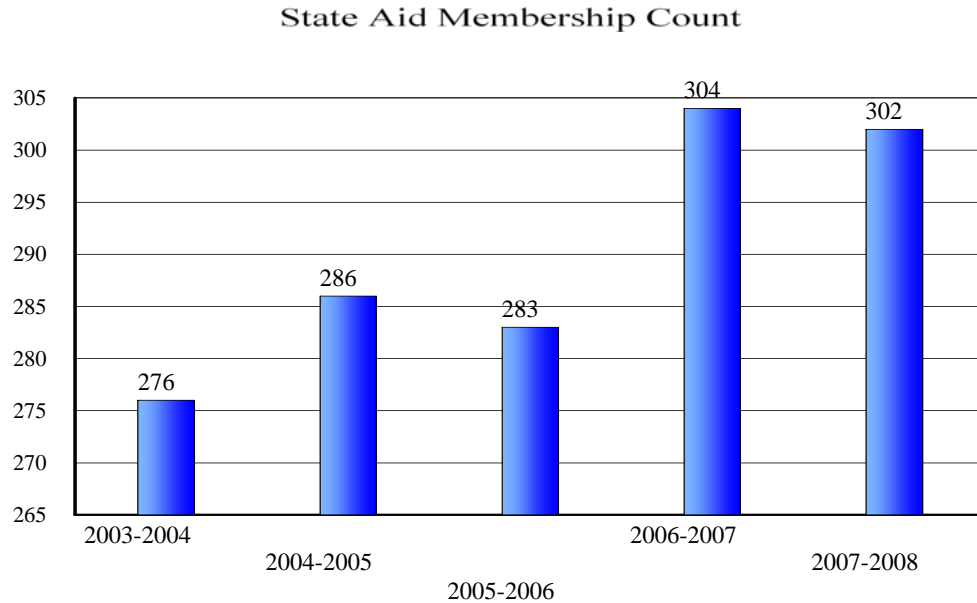
Additional information on capital assets can be found on page 25.

Long-term Debt: At the end of the current fiscal year, the Districts total long term and short term debt was \$2,443,841. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$309,810 during the fiscal year.

Additional information on the District's long-term debt can be found on pages 26 through 28 of this report.

**Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

The graph depicts a decrease of 2 students enrolled from the previous year, using the State Aid Membership Count.



Our elected officials and administration consider many factors when setting the District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provided a foundation amount (amount per student) of \$7,324 for the 2008-09 school year.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Dollar Bay-Tamarack City Area Schools.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008**

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 58,214
Investments	216,270
Taxes receivable	32,859
Accounts receivable	7,927
Due from other governmental units	<u>398,643</u>
TOTAL CURRENT ASSETS	<u>713,913</u>
NON-CURRENT ASSETS:	
Restricted cash	<u>23,525</u>
Total Restricted Assets	<u>23,525</u>
Capital assets	3,762,510
Less: Accumulated depreciation	<u>(865,205)</u>
Net Capital Assets	<u>2,897,305</u>
TOTAL NON-CURRENT ASSETS	<u>2,920,830</u>
TOTAL ASSETS	<u>\$ 3,634,743</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 15,772
Accrued expenses	208,076
Accrued retirement	31,500
Accrued interest	16,068
Due to other governmental units	83,585
Short-term note payable	150,000
Bonds payable within one year	<u>110,000</u>
TOTAL CURRENT LIABILITIES	<u>615,001</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	2,125,000
Accrued retirement and vacation	62,281
School bond loan fund payable	<u>151,599</u>
TOTAL NON-CURRENT LIABILITIES	<u>2,338,880</u>
TOTAL LIABILITIES	<u>2,953,881</u>
NET ASSETS:	
Invested in capital assets, net of related debt	494,638
Restricted for debt service	40,207
Unreserved	<u>146,017</u>
TOTAL NET ASSETS	<u>680,862</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,634,743</u>

The accompanying notes to financial statements are an integral part of this statement.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2008**

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Government Activities:				
Instruction and instructional support	\$ 1,445,404	\$ -	\$ 215,438	\$ (1,229,966)
Support services	797,293	-	-	(797,293)
School service	112,638	23,964	70,839	(17,835)
Athletics	42,179	9,483	-	(32,696)
Interest on long-term debt	106,704	-	-	(106,704)
Other debt service	805	-	-	(805)
Total Governmental Activities	<u>\$ 2,505,023</u>	<u>\$ 33,447</u>	<u>\$ 286,277</u>	<u>(2,185,299)</u>
General Revenues:				
Property taxes, levied for general operations				255,074
Property taxes, levied for debt service				286,554
State school aid - unrestricted				1,897,367
Interest and investment earnings				17,613
Other				48,907
Transfers				<u>(2,066)</u>
Total general revenues and transfers				<u>2,503,449</u>
Change in Net Assets				318,150
Net Assets - Beginning				<u>362,712</u>
Net Assets - Ending				<u>\$ 680,862</u>

The accompanying notes to financial statements are an integral part of this statement.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2008**

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 57,943	\$ -	\$ 271	\$ 58,214
Investments	216,270	-	-	216,270
Taxes receivable	16,177	16,682	-	32,859
Accounts receivable	5,000	-	2,927	7,927
Due from other governmental units	397,810	-	833	398,643
Due from other funds	-	-	5,021	5,021
Restricted cash	-	23,525	-	23,525
<b>TOTAL ASSETS</b>	<b>\$ 693,200</b>	<b>\$ 40,207</b>	<b>\$ 9,052</b>	<b>\$ 742,459</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 15,772	\$ -	\$ -	\$ 15,772
Accrued expenses	208,076	-	-	208,076
Due to other governmental units	83,585	-	-	83,585
Due to other funds	5,021	-	-	5,021
Short-term notes payable	150,000	-	-	150,000
<b>TOTAL LIABILITIES</b>	<b>462,454</b>	<b>-</b>	<b>-</b>	<b>462,454</b>
<b>FUND BALANCES:</b>				
Reserved	-	40,207	-	40,207
Unreserved	230,746	-	9,052	239,798
<b>TOTAL FUND BALANCES</b>	<b>230,746</b>	<b>40,207</b>	<b>9,052</b>	<b>280,005</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 693,200</b>	<b>\$ 40,207</b>	<b>\$ 9,052</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,897,305
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(2,480,380)
Accrued interest is not included as a liability in governmental funds.	(16,068)
Net assets of governmental activities	<u>\$ 680,862</u>

The accompanying notes to financial statements are an integral part of this statement



**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended 2008**

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES				
Local sources	\$ 309,738	\$ 294,401	\$ 37,456	\$ 641,595
State sources	1,967,151	-	7,754	1,974,905
Federal sources	145,654	-	63,085	208,739
TOTAL REVENUES	2,422,543	294,401	108,295	2,825,239
EXPENDITURES				
Instruction	1,410,404	-	-	1,410,404
Supporting services	792,994	-	-	792,994
Debt service	-	112,033	-	112,033
School service	-	-	112,638	112,638
Athletics	-	-	42,179	42,179
TOTAL EXPENDITURES	2,203,398	112,033	154,817	2,470,248
Excess (deficiency) of revenue over expenditures	219,145	182,368	(46,522)	354,991
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(51,799)	-	51,799	-
Incoming transfers - other schools	9,045	-	-	9,045
Transfers to other districts	(11,111)	-	-	(11,111)
Loan payments	-	(214,830)	-	(214,830)
Total other financing sources (uses)	(53,865)	(214,830)	51,799	(216,896)
NET CHANGE IN FUND BALANCE	165,280	(32,462)	5,277	138,095
FUND BALANCES - BEGINNING OF YEAR	65,466	72,669	3,775	
FUND BALANCES - END OF YEAR	\$ 230,746	\$ 40,207	\$ 9,052	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation but does report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation (77,148)

Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 42,372

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 214,831

Change in net assets of governmental activities \$ 318,150

The accompanying notes to financial statements are an integral part of this statement.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2008**

	<u>Fiduciary Fund</u>
ASSETS:	
Cash and investments	\$ <u>25,455</u>
LIABILITIES:	
Due to student groups	\$ <u>25,455</u>

The accompanying notes to financial statements are an integral part of this statement.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Dollar Bay-Tamarack City Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

**REPORTING ENTITY**

Dollar Bay-Tamarack City Area Schools (the "District") is governed by the Dollar Bay-Tamarack City Area School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service and Athletic Activities.

Fiduciary Funds - The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

Fiduciary funds are not included in the government-wide statements.

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

	<u>Reported</u>	<u>Audited</u>
2007-08 Foundation	\$ 7,204.00	\$ 7,204.00
Less Local Support:		
Non-Homestead Tax Value	13,787,864	14,756,252
Multiplied by mills	<u>0.018</u>	<u>0.018</u>
Total Local Support	248,182	265,613
Divided by General Education K-12 membership	<u>298.84</u>	<u>298.84</u>
Calculated Local Support	<u>(830.48)</u>	<u>(888.81)</u>
2007-08 Foundation Grant Allowance Per Pupil	<u>\$ 6,373.52</u>	<u>\$ 6,315.19</u>

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

It was noted that the Non-Homestead Tax Value reported to the State of Michigan was reported incorrectly. The District has notified Houghton County, Osceola Township and Michigan Department of Education of this discrepancy. State Aid revenue has been adjusted to reflect the decrease in revenue.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Other Accounting Policies*

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Osceola Township and Torch Lake Township and are periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.2861
Debt service fund - Homestead and non-homestead	7.83

Receivables and Payables - Activity between funds are reported as “due to/from other funds.” All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Expenses - The liabilities for accrued expenditures consisted of salaries, employee benefits, unused vacation, accrued interest, and retirement incentives.

The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers. Total retirement incentive as of June 30, 2008 is 65,250. Detail of the liability is located on page 27.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity – In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

**NOTE C - DEPOSITS AND INVESTMENTS**

At year-end, the District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 58,214	\$ 0	\$ 58,214
Restricted cash	23,525	25,455	48,980
Total cash and cash equivalents	81,739	25,455	107,194
Investments	216,270	0	216,270
Total deposits and investments	\$ 298,009	\$ 25,455	\$ 323,464

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

As of June 30, 2008 the District had the following investments:

Investment Type	Fair Value	Rating
MILAF - MIMAX	\$ 216,270	AAA

*Investment and Deposit Risk*

Interest Rate Risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$67,133 of the District's bank balance of \$190,658 was exposed to custodial credit risk because it was uninsured and collateralized.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are uncategorized as to credit risk.

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.



**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

**NOTE D - CAPITAL ASSETS**

Capital Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/07	Additions	Deletions	Balance 06/30/08
Land	\$ 1	\$ 0	\$ 0	\$ 1
Building and additions	3,532,869	0	0	3,532,869
Equipment and furniture	76,058	0	0	76,058
School buses	139,082	0	0	139,082
Vehicles other than buses	11,000	3,500	0	14,500
Subtotal	<u>3,759,009</u>	<u>\$ 3,500</u>	<u>\$ 0</u>	<u>3,762,509</u>
Accumulated depreciation:				
Building and additions	574,644	71,377	0	646,021
Equipment and furniture	74,185	1,873	0	76,058
School buses	126,103	5,768	0	131,871
Vehicle other than buses	9,625	1,630	0	11,255
	<u>784,557</u>	<u>\$ 80,648</u>	<u>\$ 0</u>	<u>865,205</u>
Net capital assets being depreciated	<u>2,974,452</u>			<u>2,897,304</u>
Net capital assets	<u>\$ 2,974,453</u>			<u>\$ 2,897,305</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 73,251
Operations	1,630
Transportation	<u>5,767</u>
Total governmental activities	<u>\$ 80,648</u>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

**NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2008 are as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General	\$ 0	General	\$ 5,021
Athletic	5,021	Athletic	0
	<u>\$ 5,021</u>		<u>\$ 5,021</u>
<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General	\$ 0	General	\$ 51,799
Food Service	13,811	Food Service	0
Athletic	37,988	Athletic	0
	<u>\$ 51,799</u>		<u>\$ 51,799</u>

**NOTE F - PAYABLES**

Accounts payable and accrued liabilities as of June 30, 2008, for the District's individual major funds and non-major funds in the aggregate, are as follows:

Fund Financial Statements:	
Accounts payable	\$ 15,772
Accrued salaries and benefits	208,076
	<u>223,848</u>
District-wide Financial Statements:	
Accrued retirement and vacation	93,781
Accrued interest on long-term debt	24,076
Total accounts payable and accrued liabilities	<u>\$341,705</u>

**NOTE G - LONG TERM DEBT**

2005 Advance Refunding

On April 27, 2005 the Authority issued \$2,455,000 of general obligation unlimited tax refunding bonds to advance refund \$2,350,000 of outstanding 1997 Building and Site bonds. The bond issue matures as indicated below with interest at varying rates of 3.75% to 4.5% per annum. Interest payments started on November 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: Bonds of this issue maturing in the years 2008 through 2014, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2015 and thereafter, shall be subject to redemption prior to maturity, at the option of the School District, in such order as the School District may determine and by lot within any maturity, on the first day of any month on or after May 1, 2014, at par and accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing May 1, 2022, May 1, 2024 and May 1, 2027 are term bonds subject to mandatory redemption, in part, by lot. When term bonds are purchased by the School District and delivered to the paying agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the term Bonds affected shall be reduced by the principal amount of the bonds so redeemed or purchased in the order determined by the School District.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

**NOTE G - LONG-TERM DEBT (Continued)**

2005 Advance Refunding Schedule

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2008-2009	\$ 46,142	\$ 46,142	\$ 110,000	\$ 202,284
2009-2010	44,080	44,080	110,000	198,160
2010-2011	42,018	42,018	110,000	194,036
2011-2012	39,955	39,955	110,000	189,910
2012-2013	37,892	37,892	110,000	185,784
2013-2014	35,693	35,693	110,000	181,386
2014-2015	33,492	33,492	110,000	176,984
2015-2016	31,293	31,293	115,000	177,586
2016-2017	28,992	28,992	115,000	172,984
2017-2018	26,692	26,692	120,000	173,384
2018-2019	24,263	24,263	120,000	168,526
2019-2020	21,802	21,802	120,000	163,604
2020-2021	19,312	19,312	125,000	163,624
2021-2022	16,625	16,625	125,000	158,250
2022-2023	13,938	13,938	125,000	152,876
2023-2024	11,187	11,187	125,000	147,374
2024-2025	8,438	8,438	125,000	141,876
2025-2026	5,625	5,625	125,000	136,250
2026-2027	2,813	2,813	125,000	130,626
	<u>\$ 490,252</u>	<u>\$ 490,252</u>	<u>\$ 2,235,000</u>	<u>\$ 3,215,504</u>

SCHOOL BOND LOAN FUND

In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2008, the balance due to the School Bond Loan Fund was \$151,599 including accrued interest of \$8,008.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 2005 refunding bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds.

The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2008 was 4.25%.

RETIREMENT PAYABLE

The School District approved a retirement agreement with various employees. Twelve employees accepted the incentive with payments in installments over three to five years. Under the agreements, the School District pays each employee a monthly payment based on the agreed upon amounts. The amounts are paid in various monthly installments. The payment schedule is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008-2009	\$ 31,500
2009-2010	27,000
2010-2011	6,750
Total	<u>\$ 65,250</u>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

**NOTE G - LONG-TERM DEBT (Continued)**

Activity in the general long-term obligations account group was as follows for the year ended June 30, 2008:

	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008	Current Portion
2005 Refunding Bond	\$ 2,345,000	\$ 0	\$ 110,000	\$ 2,235,000	\$ 110,000
School Bond Loan	248,422	0	104,831	143,591	143,591
	<u>2,593,422</u>	<u>0</u>	<u>214,831</u>	<u>2,378,591</u>	<u>253,591</u>
Retirement Incentive	103,500	0	38,250	65,250	31,500
TOTAL	<u>\$ 2,696,922</u>	<u>\$ 0</u>	<u>\$ 253,081</u>	<u>\$ 2,443,841</u>	<u>\$ 285,091</u>

As of June 30, 2008, the aggregate maturities of long-term debt are as follows:

School Year	Interest	Principal	Total
2008-2009	92,284	253,591	345,875
2009-2010	88,160	110,000	198,160
2010-2011	84,036	110,000	194,036
2011-2012	79,910	110,000	189,910
2012-2013	75,784	110,000	185,784
2013-2018	312,324	570,000	882,324
2018-2023	191,880	615,000	806,880
2023-2027	56,126	500,000	556,126
TOTAL	<u>\$ 980,504</u>	<u>\$ 2,378,591</u>	<u>\$ 3,359,095</u>

**NOTE H- NOTE PAYABLE**

During the year ended June 30, 2008, the School District borrowed funds from the Michigan Municipal Bond Authority for cash flow purposes.

Purpose of Loan	Date Of Issue	Original Amount	Maturity	Interest Rate	6/30/08 Balance
Cash flow loan	08/20/07	<u>\$ 150,000</u>	08/20/08	3.68%	<u>\$150,000</u>

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

*Plan Description*

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

*Funding Policy*

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by the state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPERS for the years ended June 30, 2008, 2007, and 2006, were \$192,226, \$210,339, and \$183,359 respectively, equal to the required contributions for each year.

*Other Post Employee Benefits*

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

The District is not responsible for the payment of retirement benefits or post-employment benefits which is the responsibility of the State of Michigan.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE J - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES**

The amounts reported as current payments on MDE grant reports by the State of Michigan reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Current payments per MDE grant reports	\$ 165,100
Less prior year account receivables:	
Comprehensive School Reform	(1,789)
Title II	(2,388)
Title I	(12,287)
Plus:	
Title I accounts receivable	9,537
USDA Commodities	0
Direct Federal grants	50,559
Miscellaneous adjustment	7
Total Federal Financial Assistance	<u>\$ 208,739</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2008 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**NOTE K - ECONOMIC DEPENDENCY**

The District received approximately 78% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

**NOTE L - CONTINGENT LIABILITIES**

Risk Pool

Dollar Bay-Tamarack City Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Dollar Bay-Tamarack City Area Schools joined together with other school districts currently operating a common risk management and insurance program. Dollar Bay-Tamarack City Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Dollar Bay-Tamarack City Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2008, which can be obtained through the School District.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2008**

---

**NOTE M - SUBSEQUENT EVENT**

School Loan Fund: On August 20, 2008, the School District entered into a note with the School Loan Fund. The principal amount and the interest rate on the note shall not exceed \$100,000 and 1.70% per annum, respectively. The note matures on August 20, 2009. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

**NOTE N - PRIOR PERIOD ADJUSTMENT**

During the audit, after review of the Michigan Department of Education Grants Section Auditor's Report, it was established that a Title II receivable of \$760 was not booked in prior year. Accordingly, adjustments were made to increase the Title II revenue and receivable as of June 30, 2007.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**



**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 255,536	\$ 279,842	\$ 309,738	\$ 29,896
State sources	1,881,786	1,975,169	1,967,151	(8,018)
Federal sources	122,177	140,633	145,654	5,021
TOTAL REVENUE	2,259,499	2,395,644	2,422,543	26,899
EXPENDITURES:				
Instruction	1,435,970	1,416,311	1,410,404	5,907
Supporting services	752,578	831,347	792,994	38,353
TOTAL EXPENDITURES	2,188,548	2,247,658	2,203,398	44,260
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	70,951	147,986	219,145	71,159
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(84,468)	(54,959)	(51,799)	3,160
Incoming transfers - other schools	-	-	9,045	9,045
Other outgoing transfers	(55,340)	(3,115)	(11,111)	(7,996)
Total other financing sources (uses)	(139,808)	(58,074)	(53,865)	4,209
NET CHANGE IN FUND BALANCE	\$ (68,857)	\$ 89,912	165,280	\$ 66,950
FUND BALANCE - BEGINNING OF YEAR			65,466	
FUND BALANCE - END OF YEAR			\$ 230,746	

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**GENERAL FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ending June 30, 2008**

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Taxes	\$ 238,503	\$ 255,074	\$ 16,571	\$ 229,196
Investments	8,000	9,766	1,766	11,243
Contributions	-	-	-	8,510
Miscellaneous	33,339	44,898	11,559	29,333
Total local sources	279,842	309,738	29,896	278,282
State sources:				
Unrestricted grants:				
State aid	1,906,186	1,897,367	(8,819)	1,949,234
Restricted grants:				
Special Education	12,029	12,839	810	11,220
School Readiness	602	602	-	-
At-risk	56,332	56,343	11	43,206
Other state revenue	20	-	(20)	3,451
Total state sources	1,975,169	1,967,151	(8,018)	2,007,111
Federal sources:				
Title I	43,498	44,944	1,446	50,498
Title V	63	63	-	712
Title II	22,134	23,762	1,628	14,501
REAP grant	19,035	19,035	-	20,222
Impact Aid	21,802	23,722	1,920	17,445
Comprehensive School Reform Grant	26,326	26,326	-	106,092
Healthy Hearts	2,150	2,150	-	-
MiBLSi grant	5,625	5,652	27	3,000
Service learning grant	-	-	-	994
Total federal sources	140,633	145,654	5,021	213,464
TOTAL REVENUES	2,395,644	2,422,543	26,899	2,498,857
EXPENDITURES:				
Instruction:				
Basic program:				
Elementary School	508,582	508,969	(387)	549,383
High School	721,453	720,700	753	679,411
Total basic program	1,230,035	1,229,669	366	1,228,794
Added needs:				
Special education	64,571	53,124	11,447	50,529
Compensatory education	69,825	71,270	(1,445)	157,113
At-Risk	51,880	56,341	(4,461)	43,274
Total added needs	186,276	180,735	5,541	250,916
Total instruction	1,416,311	1,410,404	5,907	1,479,710

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**GENERAL FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**(Continued)**  
**Year Ending June 30, 2008**

	BUDGET	ACTUAL	VARIANCE	2007
Supporting services:				
Pupil:				
Guidance	27,954	24,095	3,859	17,271
Instructional staff:				
Improvement of instruction	50,366	43,620	6,746	40,595
Library	39,390	38,130	1,260	39,650
Total instructional staff	89,756	81,750	8,006	80,245
General administration:				
Board of education	34,161	28,776	5,385	25,056
Executive administration	137,851	136,923	928	131,090
Total general administration	172,012	165,699	6,313	156,146
School administration - Principal	153,439	162,699	(9,260)	121,968
Business-fiscal services	62,921	61,351	1,570	87,346
Operation & maintenance	245,246	217,238	28,008	219,705
Pupil transportation	80,019	80,162	(143)	72,770
Total supporting services	831,347	792,994	38,353	755,451
TOTAL EXPENDITURES	2,247,658	2,203,398	44,260	2,235,161
EXCESS OF REVENUES OVER EXPENDITURES	147,986	219,145	71,159	263,696
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	-	9,045	9,045	19,450
Operating transfer out	(54,959)	(51,799)	3,160	(53,726)
Other outgoing transfers	(3,115)	(11,111)	(7,996)	(53,434)
TOTAL OTHER FINANCING SOURCES (USES)	(58,074)	(53,865)	4,209	(87,710)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 89,912	165,280	\$ 75,368	175,986
FUND BALANCE, BEGINNING OF YEAR		65,466		(110,520)
FUND BALANCE, END OF YEAR		\$ 230,746		\$ 65,466

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**DEBT SERVICE FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2008**

	<u>2008</u>	<u>2007</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 286,554	\$ 267,114
Interest income	7,433	8,181
Penalties & interest on delinquent taxes	<u>414</u>	<u>336</u>
TOTAL REVENUES	<u>294,401</u>	<u>275,631</u>
EXPENDITURES:		
Interest on bonds	111,227	100,535
Other expense	<u>806</u>	<u>-</u>
TOTAL EXPENDITURES	<u>112,033</u>	<u>100,535</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	182,368	175,096
OTHER FINANCING SOURCES (USES)		
Redemption of bond principal	<u>(214,830)</u>	<u>(206,050)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(32,462)</u>	<u>(30,954)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>72,669</u>	<u>103,623</u>
FUND BALANCE, END OF YEAR	<u>\$ 40,207</u>	<u>\$ 72,669</u>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2008**

	School Service	Athletic	Totals (Memorandum Only)	
			2008	2007
ASSETS AND OTHER DEBITS				
Cash	\$ -	\$ 271	\$ 271	\$ 371
Receivables	2,927	-	2,927	2,999
Due from funds	-	5,021	5,021	4,470
Due from other governmental units	833	-	833	776
<b>TOTAL ASSETS</b>	<b>\$ 3,760</b>	<b>\$ 5,292</b>	<b>\$ 9,052</b>	<b>\$ 8,616</b>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 4,841
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,841</b>
FUND EQUITY:				
Fund balance - unreserved	3,760	5,292	9,052	3,775
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 3,760</b>	<b>\$ 5,292</b>	<b>\$ 9,052</b>	<b>\$ 8,616</b>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENTS OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**June 30, 2008**

	School		Totals	
	Service	Athletic	(Memorandum Only)	
			2008	2007
REVENUES				
Local sources:				
Adult lunches	\$ 1,978	\$ -	\$ 1,978	\$ 6,241
Student lunches	21,986	-	21,986	22,895
Miscellaneous	4,009	-	4,009	3,170
Gate receipts	-	9,483	9,483	12,016
Total local sources	27,973	9,483	37,456	44,322
State sources	7,754	-	7,754	6,321
Federal sources:				
School lunch program	63,085	-	63,085	61,617
USDA entitlements	-	-	-	44
USDA bonus entitlements	-	-	-	114
Total federal sources	63,085	-	63,085	61,775
TOTAL REVENUES	98,812	9,483	108,295	112,418
EXPENDITURES:				
Salaries	23,834	3,641	27,475	42,758
Employee benefits	5,945	478	6,423	10,274
Purchase services	82,859	30,388	113,247	95,308
Supplies, materials, and other	-	7,672	7,672	20,439
TOTAL EXPENDITURES	112,638	42,179	154,817	168,779
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,826)	(32,696)	(46,522)	(56,361)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	13,811	37,988	51,799	53,726
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(15)	5,292	5,277	(2,635)
FUND BALANCE, BEGINNING OF YEAR	3,775	-	3,775	6,410
FUND BALANCE, END OF YEAR	\$ 3,760	\$ 5,292	\$ 9,052	\$ 3,775

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**SCHOOL SERVICE FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year ended June 30, 2008**

	BUDGET	ACTUAL	VARIANCE	2007
REVENUES:				
Local sources:				
Adult lunches	\$ 1,982	\$ 1,978	\$ (4)	\$ 6,241
Student lunches	20,650	21,986	1,336	22,895
Miscellaneous	4,397	4,009	(388)	3,170
Total local sources	27,029	27,973	944	32,306
State sources	8,560	7,754	(806)	6,321
Federal sources:				
School lunch program	56,164	63,085	6,921	61,617
USDA entitlements	134	-	(134)	44
USDA bonus entitlements	31	-	(31)	114
Total federal sources	56,329	63,085	6,756	61,775
TOTAL REVENUES	91,918	98,812	6,894	100,402
EXPENDITURES:				
Salaries	23,835	23,834	1	22,508
Employee benefits	5,933	5,945	(12)	5,895
Purchase services	82,460	82,859	(399)	82,513
TOTAL EXPENDITURES	112,228	112,638	(410)	110,916
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,310)	(13,826)	6,484	(10,514)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	18,400	13,811	(4,589)	12,379
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ (1,910)	(15)	\$ 1,895	1,865
FUND BALANCE, BEGINNING OF YEAR		3,775		1,910
FUND BALANCE, END OF YEAR		\$ 3,760		\$ 3,775



**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**ATHLETIC FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2007</u>
REVENUES:				
Local sources:				
Gate receipts	\$ 8,843	\$ 9,483	\$ 640	\$ 12,016
TOTAL REVENUES	<u>8,843</u>	<u>9,483</u>	<u>640</u>	<u>12,016</u>
EXPENDITURES:				
Salaries	25,234	3,641	21,593	20,250
Employee benefits	478	478	-	4,379
Purchase services	9,670	30,388	(20,718)	12,795
Supplies, materials, and other	7,631	7,672	(41)	20,439
TOTAL EXPENDITURES	<u>43,013</u>	<u>42,179</u>	<u>834</u>	<u>57,863</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(34,170)	(32,696)	1,474	(45,847)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>36,559</u>	<u>37,988</u>	<u>1,429</u>	<u>41,347</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ 2,389</u>	5,292	<u>\$ 2,903</u>	(4,500)
FUND BALANCE, (DEFICIT) BEGINNING OF YEAR		<u>-</u>		<u>4,500</u>
FUND BALANCE, (DEFICIT) END OF YEAR		<u>\$ 5,292</u>		<u>\$ -</u>

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**AGENCY FUND - SCHOOL ACTIVITIES**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2008**

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
<b>ASSETS:</b>				
Cash	\$ 27,004	\$ 62,067	\$ 63,616	\$ 25,455
<b>LIABILITIES:</b>				
Due to school groups				
Cheerleaders	\$ 131	\$ 75	\$ 0	\$ 206
Class of 2007	352	440	792	0
Class of 2008	8,444	12,583	21,026	1
Class of 2009	1,946	3,577	1,846	3,677
Class of 2010	429	143	0	572
Class of 2011	0	295	0	295
Athletic Promotions	(20)	34	0	14
Bill Milde Memorial Fund	162	0	0	162
Student Council	4,011	4,617	5,912	2,716
Yearbook	4,854	6,055	6,161	4,748
Sixth Grade Camp Nesbit	857	7,263	7,954	166
Girls Basketball	381	2,077	2,274	184
Boys Basketball	(294)	2,696	2,279	123
Boys JV Basketball	0	204	0	204
Principal's Discretionary	1	173	53	121
Odyssey of the Mind	363	0	363	0
National History Day	539	2,626	2,529	636
Shop	144	1,824	1,452	516
Band	3,699	7,352	3,541	7,510
4 <sup>th</sup> of July	500	1,255	1,692	63
Jamming on the Bay	0	2,419	978	1,441
SADD	72	825	639	258
Track	410	180	42	548
Elem Fundraising	0	2,999	2,843	156
3-6 Elem	0	60	0	60
Archery Club	0	250	53	197
Miscellaneous	23	2,045	1,187	881
Total due to student groups	<u>\$ 27,004</u>	<u>\$ 62,067</u>	<u>\$ 63,616</u>	<u>\$ 25,455</u>



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.brukerukkila.com



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Dollar Bay-Tamarack City Area Schools  
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools as of and for the year then ended June 30, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential and will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will be not be prevented or detected by Dollar Bay-Tamarack City Area Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-1 through 2008-4.

We noted certain matters that we reported to management of Dollar Bay-Tamarack City Area Schools in a separate letter dated October 23, 2008.

Dollar Bay-Tamarack City Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Dollar Bay-Tamarack City Area Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

**Bruce A. Rukkila, CPA, PC**

Certified Public Accountants

October 23, 2008

## **DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**

### **SCHEDULE OF FINDINGS AND RESPONSES**

**For the Year Ended June 30, 2008**

---

#### **2008-1 – Preparation of Financial Statements in Accordance with GAAP**

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, Dollar Bay-Tamarack City Area Schools has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Dollar Bay-Tamarack City Area Schools has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

#### **2008-2 - Segregation of Duties**

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting and safeguarding of the District's assets.

Condition: During the course of the audit, we noted instances where multiple key accounting and financial reporting duties are performed by the same individual that also has access to the general ledger. Examples include (1) the ability to setup new employees and enter payroll information (pay rates, hours, deductions, etc.) (2) the ability to create vendors, enter invoices and print disbursement checks (3) the ability to initiate and enter manual journal entries (4) the duty to perform bank reconciliations.

Cause: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

Effect: Due to the inherent lack of segregation of duties, the District has an increased risk that fraud or abuse is not prevented or could be detected in a timely manner. Ideally, no single individual should ever be able to initiate and record a transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The District understands it needs to be aware of this situation and will implement review processes for payroll activities, accounts payable reports, bank reconciliations, and journal entries. The review procedures will be formally documented and reviewed by the auditor.

**DOLLAR BAY-TAMARACK CITY AREA SCHOOLS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended June 30, 2008**

---

**2008-3 – Adjustments Proposed by the Auditor**

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.

**2008-4 – Capital Assets Records Maintained by the Auditor**

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: A copy of the capital asset information will be provided to the District, which will allow the District to assume this responsibility in the future.



**Bruce A. Rukkila, CPA, PC**

310 Sheldon Avenue • Houghton MI 49931  
(906) 482-6601 • Fax: (906) 482-9046  
e-mail: help@brucerukkila.com  
www.bruceukkila.com



October 27, 2008

To the Board of Education  
Dollar Bay-Tamarack City Area Schools  
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dollar Bay-Tamarack City Area Schools for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 14, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we consider of internal control of Dollar Bay-Tamarack City Area Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Dollar Bay-Tamarack City Area Schools's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

*Qualitative Aspects of Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Dollar Bay-Tamarack City Area Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by Dollar Bay-Tamarack City Area Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 27, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Dollar Bay-Tamarack City Area Schools's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Dollar Bay-Tamarack City Area School Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to Dollar Bay-Tamarack City Area Schools. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

**Bruce A. Rukkila, CPA, PC**

Certified Public Accountants



In planning and performing our audit of the financial statements of Dollar Bay-Tamarack City Area Schools, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Dollar Bay-Tamarack City Area Schools's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

*2008-1 – Preparation of Financial Statements in Accordance with GAAP*

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, Dollar Bay-Tamarack City Area Schools has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Dollar Bay-Tamarack City Area Schools has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation. We concur with this decision.

*2008-2 - Segregation of Duties*

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible. Specifically, we would recommend that the District consider the following procedure:

\*Written procedures be given to Treasurer to guide when reviewing bank statements and reconciliations.

Cause, Condition, and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The District relies solely on its Business Manager for its general ledger accounting functions.

View of Responsible Officials: The District understands it needs to be aware of this situation and maintain oversight of its financial records.

*2008-3 – Adjustments Proposed by the Auditor*

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts and are reconciled on a timely basis with review and approval by the Board Treasurer.

*2008-4 – Capital Assets Records Maintained by the Auditor*

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: A copy of the capital asset information will be provided to the District, which will allow the District to assume this responsibility in the future.

**ADDITIONAL COMMENTS AND RECOMMENDATIONS**

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

Disbursement Documentation

During the course of the audit, the staff was unable to locate records to substantiate several transactions, particularly in the Trust and Agency Fund. We recommend that records relating to all disbursements be acquired and retained.

#### Documentation of Board Proceedings

Bank depositories for all school funds should be designated at the reorganizational meeting according to the District bylaws.

#### Documentation of Grant Requests

It was noted during the course of the audit that grant funds received via direct deposit didn't always have the grant request documentation as support. We recommend that all grant monies received be supported by the proper request documentation.

#### Software Capability

The District currently uses the School Finance software that is designed specifically for School Districts. For our observation, it doesn't appear the software is being utilized to its maximum capabilities. Specifically, we would recommend to the District the following:

- \*Utilize the budget feature
- \*Create reports for year end reporting such as accounts payable, accruals, etc.